

CREDIT OPINION

24 March 2016

New Issue

Rate this Research >>

Contacts

Nisha Rajan 212-553-1978
 Associate Analyst
 nisha.rajan@moody's.com

Edna R Marinelarena 212-553-1383
 Analyst
 edna.marinelarena@moody's.com

Gregory W. Lipitz 212-553-7782
 VP-Sr Credit Officer
 gregory.lipitz@moody's.com

Fort Lauderdale (City of), FL Water & Sewer Enterprise

New Issue - Moody's assigns Aa1 to Ft. Lauderdale, FL's \$164.7M Water & Sewer Rev. Ref. Bonds, Ser. 2016; outlook stable

Summary Rating Rationale

Moody's Investors Service has assigned a rating of Aa1 to Fort Lauderdale's (FL) sale of \$164.7 million Water and Sewer Revenue Refunding Bonds, Series 2016. Concurrently, Moody's has affirmed the Aa1 rating on \$233.6 million outstanding parity bonds.

The Aa1 rating reflects the strength of a well-managed system supported by a strong liquidity position and competitive rate structure, a sound capital improvement program, and sufficient water supply and system treatment capacities to at least 2035. The Aa1 rating also considers the recovering economy, high debt ratio, and narrow but satisfactory overall debt service coverage.

Credit Strengths

- » Strong management with healthy liquidity
- » Sufficient intermediate term water supply and system treatment capacities
- » Rate setting authority with frequent reviews and timely increases

Credit Challenges

- » Increased payments to the General Fund
- » High debt burden
- » Rebounding regional economy with slower than projected population growth

Rating Outlook

The stable outlook reflects the system's strong financial position and management's willingness to address financial pressures with appropriate rate increases.

Factors that Could Lead to an Upgrade

- » Improvement in the system's coverage ratios
- » Declines in debt ratio

Factors that Could Lead to a Downgrade

- » Deterioration of the system's financial profile evidenced by reduced coverage ratios or liquidity
- » Increased debt ratio

Key Indicators

Ft. Lauderdale Water & Sewer Enterprise

System Characteristics					
Asset Condition (Net Fixed Assets / Annual Depreciation)	37 years				
System Size - O&M (in \$000s)	78,365				
Service Area Wealth: MFI % of US median	89.3%				
Legal Provisions					
Rate Covenant (x)	1.25x				
Debt Service Reserve Requirement	No DSRF				
Financial Strength					
	2010	2011	2012	2013	2014
Operating Revenue (\$000)	105,959	105,395	105,836	114,752	115,527
O&M (\$000)	62,438	58,585	75,033	74,932	78,365
Long-Term Debt (\$000)	489,803	476,498	459,603	445,617	431,273
Annual Debt Service Coverage (x) (Senior Lien)	2.02	1.79	1.23	1.54	1.49
Cash on Hand	571 days	634 days	442 days	401 days	448 days
Debt to Operating Revenues (x)	4.6x	4.5x	4.3x	3.9x	3.7x

Source: Moody's Investors Service

Recent Developments

Recent developments are included in the Detailed Rating Considerations.

Detailed Rating Considerations

Service Area and System Characteristics: Regionally Important Service Area with Sufficient Supply and Treatment Capacities

The system provides water distribution and wastewater collection and treatment to the City of Fort Lauderdale (Aa1 stable) and contracts with surrounding jurisdictions. The local economy in Ft. Lauderdale benefits from tourism and proximity to Miami (A1 stable), and is anchored by the Fort Lauderdale/Hollywood International Airport and various seaports. Though the city's economy and tax base suffered during the recent recession, it has since experienced four years of tax base growth as well as moderate population growth. The system has sufficient water supply and water and sewer treatment capacity for the intermediate term to accommodate that growth and demand. As of fiscal 2015, there were 60,138 and 47,110 active water and sewer accounts respectively, with residential customers comprising the majority of both. The customer base is somewhat concentrated, with the top 10 users for 2015 accounting for 24% of total consumption.

The water system serves approximately 218,000 residents. Water is supplied solely from the Biscayne Aquifer, and withdrawals are regulated by the South Florida Water Management District (SFWMD) pursuant to a twenty-year water use permit (WUP) that expires September 11, 2028. The WUP enables withdrawals from two wellfields, Dixie and Prospect, for 52.55 MGD annual average daily flow, although capacity of the two is 107 MGD combined. The City previously anticipated surpassing their allotted capacity to meet water

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

supply demands by 2023, but due to reduced population trends and water conservation, revised it to 2035. Wellfield updates by the City include 5 new wells at Prospect, which has increased capacity, as well as a network of new salt water monitoring wells installed around Dixie to bolster the salt water intrusion monitoring program.

The City operates two water treatment plants, Fiveash (primary) and Peele-Dixie, with a total current capacity of 72 MGD. Average daily flow in fiscal 2015 was about 39.8 MGD, with peak at 50.76 MGD. Water storage of 28 MG is considered to be adequate. Large user, 30-year water agreements (25 years for Wilton Manors) are on a take-and-pay basis and all agreements, which represent 20.4% of 2015 total water production, expire prior to the final maturity of the bonds. However, given competitive rates and little alternative means of water procurement, we believe this is not a significant factor. The system is in compliance with anticipated Stage II Disinfectant/Disinfectant By-Products regulations. Water loss was estimated at about 11.6% in 2015.

The sewer system serves about 174,000 people in the central part of the county. The 56.6 MGD regional wastewater treatment plant is adequate relative to 37.2 MGD average and 40.9 MGD peak flow in 2015. Effluent disposal is by deep well injection, and the system is in compliance with TMDL load requirements and all other state and federal regulations.

Debt Service Coverage and Liquidity: Satisfactory Debt Service Coverage with Appropriate Rate Increases to Support Financial Operations and Capital Improvements

Debt service coverage and debt ratios will likely remain stable going forward. Based on 2014 audited financials, debt service coverage, which incorporates Current Expenses and Personal Services, was 1.49x for senior lien bonds (1.19x for all debt). Coverage based on bond ordinance was 2.44x in fiscal 2014 for senior lien bonds (1.94x for all debt) and 2.22x in fiscal 2015 (1.71x for all debt) (unaudited). Debt to Operating Revenues decreased from 3.9x in fiscal 2013 to 3.7x in fiscal 2014, and the system's current debt ratio of 43.5% is elevated for the rating level. Both are expected to decrease further, as no additional borrowing is planned.

The City has demonstrated a strong willingness to raise rates to sustain the capital program and address increased operating expenses and debt service. Beginning in fiscal 2016, annual 5% rate increases are authorized through fiscal 2019. Monthly average residential water and sewer bills for fiscal 2016 are \$57.22 (5,000 gallons per month), and are competitive in relation to the region. The system also has surcharges that are utilized during periods of drought to support operations.

The 2016 budget projects net revenues of \$49 million, providing coverage of 2.06x for senior lien bonds (1.62x for all debt). The budget also incorporates \$18.9 million for water and sewer capital improvements in 2016, which are funded on a pay-as-you-go basis.

Projections past 2016 reflect net revenues sufficient to an average coverage ratio of 2.01x through 2020 on all debt. The system's capital improvement plan (CIP) includes \$167.1 million for water, sewer, and wastewater projects between 2017 and 2020. Total debt service is estimated to average \$26 million through 2026 and decline thereafter until final maturity in 2038.

LIQUIDITY

The system's liquidity position is strong, with unrestricted cash and investments of \$96.2 million in relation to operating expenses of \$78.4 million yielding 448 days cash on hand in fiscal 2014. Operating expenses include payments from the system to the city's general fund, which are equal to 3% of the prior year's net fixed assets. The fiscal 2014 payment totaled \$17.9 million, and despite a slight increase in the fiscal 2015 payment (\$19.1 million), liquidity is expected to remain healthy given the system's ability to effectively manage expenses and capital spending.

Debt and Legal Covenants

Security provisions include a rate covenant of 1.25 times annual debt service (combined senior and junior liens), and an additional bonds test of 1.25 times. While the lack of a debt service reserve fund is viewed as a credit weakness, the system's historically liquid financial position somewhat mitigates this factor.

DEBT STRUCTURE

Following the refunding, the system's senior lien debt outstanding includes Series 2012 and 2014 (\$184 million), and junior lien debt outstanding includes 2005, 2006, and 2008 SRF loans (\$49.6 million). Payout of all debt is average with 43.9% of principal repaid within 10 years. All of the system's debt is fixed rate.

DEBT-RELATED DERIVATIVES

The system is not party to any derivative agreements.

Management and Governance

The system is operated by Ft. Lauderdale's Public Works Department. The City is responsible for establishing rates and charges for services for the system, which are adopted through ordinance and require approval by the City Commission. The City has an ordinance that allows for a 5% across the board rate revenue adjustment for all service types each fiscal year to account for incremental annual cost increases. System officials also rely on multiyear planning and annual rate evaluations to ensure fiscal stability of the system. The City is in the process of adopting a formal policy to maintain a minimum 90 day operating reserve.

Legal Security

The bonds are secured by net revenues of the combined water and sewer system.

Use of Proceeds

Proceeds from this issue will be used to refund \$53.1 million outstanding Series 2006 bonds, \$31 million outstanding Series 2008, \$72.4 million Series 2010, \$5.6 million outstanding 2003 SRF loan, and \$11.8 million 2004 SRF loan for an estimated net present value savings of \$10.2 million, or 5.88% of refunded principal with no extension of maturities.

Obligor Profile

The system provides water distribution and wastewater collection and treatment to the City of Fort Lauderdale (Aa1 stable) and contracts with surrounding jurisdictions. As of 2015, the population of Ft. Lauderdale was estimated at 175,123.

Methodology

The principal methodology used in this rating was US Municipal Utility Revenue Debt published in December 2014. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 2

FORT LAUDERDALE (CITY OF) FL WATER AND SEWER ENTERPRISE

Issue	Rating
Water and Sewer Revenue Refunding Bonds, Series 2016	Aa1
Rating Type	Underlying LT
Sale Amount	\$164,690,000
Expected Sale Date	04/19/2016
Rating Description	Revenue: Government Enterprise

Source: Moody's Investors Service

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1019152

Contacts

Nisha Rajan
Associate Analyst
nisha.rajan@moodys.com
212-553-1978

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454